

## ASSOCIATION FOR ENTERPRISE OPPORTUNITY

### 1999 LEGISLATIVE PRIORITIES

#### **Microenterprise in the United States**

Small business is the backbone of the U.S. economy, accounting for 76.4% of all new jobs created between 1990-1995. Accounting for 27% of these jobs are firms employing four or fewer employees. (Office of Advocacy, Small Business Administration.) Though often overlooked, the smallest firms within this realm, self-employed individuals and microenterprises employing fewer than five workers, are playing an increasingly vital role. The U.S. Small Business Administration (SBA) reports that while firms of five to five hundreds employees in all industries experienced a net loss of 2 million jobs from 1989-1991, firms with fewer than five employees experienced a net increase of 2.6 million jobs. Despite their critical role in the economy, many entrepreneurs have difficulty obtaining the capital and management assistance they need to grow their businesses, develop products, tap new markets, and create jobs.

#### **The Role of Microenterprise Development Services**

Diversity is the hallmark of microenterprise development in the United States. A wide range of institutions - including organizations dedicated solely to microenterprise development, community development corporations, loan funds, community action agencies, women's organizations, community development banks and credit unions, housing and social service programs, as well as government agencies at the local, state, and national levels - engage in microenterprise development. Programs may be tailored to suit the needs of specific target groups or may be available on an open basis depending on the goals of each institution. All, however, share a focus on giving individuals the resources that they need to begin and grow small businesses in a complex economy. Over the past decade AEO and its members have identified four primary elements of sound microenterprise development policy in the United States:

- Training and technical assistance
- Credit or access to credit
- Access to markets
- Asset development

Although individual microenterprise development programs may not address all four elements, it is essential that economically disadvantaged entrepreneurs have access to each of the services within their communities.

#### **The Case for Public Sector Support of Microenterprise**

Microenterprise support yields its greatest value as an economic and human development strategy over the long term. After a decade of operation, microenterprise programs in the United States are creating jobs, generating income, building assets and enhancing skills. These results are particularly impressive when one considers that a significant portion of assisted microentrepreneurs are individuals facing barriers presented by race, gender, ethnicity, income, job market fluctuations, or location. Microenterprise development helps shrink public budgets by reducing dependence on public assistance and increases public tax revenues and private incomes by generating new economic activity. Public sector investment in microenterprise development will maintain and substantially increase these returns over time.

The Association for Enterprise Opportunity (AEO) is the national association of organizations committed to microenterprise development. AEO provides its member organizations with a forum, information and a voice to promote enterprise opportunity for people and communities with limited access to economic resources.

***AEO supports reauthorization of the Community Development Financial Institutions (CDFI) Fund and an appropriation of \$125 million for FY 2000.*** The Fund has been innovative, investment oriented and businesslike in approaching its funding and its portfolio includes a diverse array of urban/rural and large/small CDFIs. The CDFI Fund has been productive and successful in issuing its first three rounds of awards. Thus far, they have awarded \$122 million to 117 CDFIs through the Core Program Component, \$3 million to 70 CDFIs through the Technical Assistance Program, and they have reached more than 200 CDFIs by investing \$7 million in CDFI Intermediaries. The Fund has also awarded \$58 million to more than 170 banks and thrifts through the Bank Enterprise Awards Program resulting in more than \$700 million in direct financing services in distressed communities as well as \$271 million invested in CDFIs. CDFI Fund's programs are consistently oversubscribed and demand for the Fund continues to grow as the field of CDFIs expands. AEO urges Congress to reauthorize the CDFI Fund and supports an appropriation of \$125 million for the Fund in FY 2000 - which includes \$15 million for PRIME.

***AEO supports full funding for the Assets for Independence Demonstration Program at the Department of Health and Human Services in FY 2000.*** The Assets for Independence Act, passed as part of the Human Services Reauthorization Act of 1998, authorized a five year, \$125 million Individual Development Account (IDA) demonstration program at the department of Health and Human Services. The demonstration has the potential to initiate 50,000 new IDA accounts around the country. Similar to employer-employee retirement savings plans, IDAs are leveraged savings accounts dedicated to high return investments in home ownership, post-secondary education or business capitalization. The Assets for Independence Demonstration Program received \$10 million in FY 1999 to launch the program and AEO supports the full \$25 million appropriation for the demonstration program in FY 2000.

***AEO supports President's proposal for a New Markets Tax Credit to stimulate private investment in community development entities, including microenterprise development organizations.*** The New Markets Tax Credit proposal builds on some of the most hopeful and effective private sector efforts currently underway to generate wealth and economic opportunity in poor communities. Under the proposal, the Treasury Department would select and certify community development entities, including microenterprise development entities, whose mission is to serve low and moderate income communities or persons. Certified community development entities would be allocated tax credits, which in turn could be provided to investors in the entity. Over five years, investors could claim a tax credit worth about 25 percent of the amount invested in a community development entity. The proposal, which is contained in the President's FY 2000 budget request, could encourage up to \$6 billion in private sector investment for business growth in poor urban and rural communities. The cost to the federal government for this innovative targeted tax credit would be less than \$1 billion over five years.

## **AEO's 1999 Legislative Priorities**

AEO has identified a number of federal programs that are essential in addressing the needs of the microenterprise sector in the areas of training and technical assistance, access to markets, credit and asset development. Congressional support for these programs is essential if the field of microenterprise is to meet its full potential.

***AEO supports the passage of, and full appropriation for, the Program for Investments in Microentrepreneurs Act of 1999 (The PRIME Act).*** The PRIME Act (HR. 413 and S 409) is designed to build the institutional strength of microenterprise development organizations so that they can effectively respond to the growing demands for training and technical assistance among low income entrepreneurs. The PRIME Act authorizes the Community Development Financial Institutions (CDFI) Fund to establish a microenterprise technical assistance and capacity building program that would award grants on a competitive basis to microenterprise programs that provide training and business assistance to low and very low income entrepreneurs. The PRIME Act would authorize a cumulative appropriation level of \$105 million over four years, starting with an appropriation of \$15 million in FY 2000.

The PRIME Act enjoys strong bi-partisan support in both the House and the Senate. Senators Kennedy (D-MA) and Domenici (R-NM) took the lead on S.409, and Representatives Rush (D-IL) and Leach (R-IA) took the lead in introducing HR 413. In addition, the Administration has expressed its support for PRIME and the President's FY 2000 budget called for passage of the requested \$15 million for PRIME.

***AEO supports the SBA's FY 2000 budget request for the Microloan Program - \$60 million for direct loans and \$32 million for technical assistance grants.*** The SBA Microloan Program was the first federal program established to address the credit needs of self-employed entrepreneurs and microbusinesses. Based on the program's demonstrated effectiveness in getting credit to the smallest businesses, the SBA Microloan Program was made permanent and expanded significantly through the Small Business Reauthorization Act of 1997. There are currently 129 intermediary lenders and 19 non-lending technical assistance providers participating in the program. To date, the lending intermediaries have made 7,900 loans for a total of over \$80 million and the non-lending technical assistance providers participating in the program have served over 10,459 entrepreneurs and helped businesses access more than \$24 million in loans. AEO supports the SBA's FY 2000 budget request for an increase in the Microloan program level to \$60 million in direct loans and \$32 million in technical assistance grants. This funding level will enable the SBA to sustain the current microlending intermediaries and technical assistance providers and allow the number of microlending intermediaries to expand to 200.

***AEO supports an appropriation of \$12 million for the Women's Business Center Program for FY 2000.*** The SBA's Office of Women's Business Ownership (OWBO) is the only federal office specifically targeted to women business owners. Its principal activity has been to provide matching grants to over 70 Women's Business Centers around the country that provide training and technical assistance to women who own or are starting a business. Over the past ten years, these Women's Business Centers have effectively served more than 67,500 women business owners by providing intensive consulting, training and business assistance. Additional support is needed to ensure that the existing network of Women's Business Centers is sustained and that new centers are developed. For this reason, AEO supports an appropriation of \$12 million in FY 2000 - \$3 million above the SBA's budget request and the FY 1999 appropriation level.

Sign on letter in support of the  
Program for Investments in Microentrepreneurs Act of 1999  
(The PRIME Act)

March, 1999

We, the undersigned, represent a broad spectrum of national organizations involved in microenterprise development in the United States. We are writing to express our support for the Program for Investments in Microentrepreneurs Act of 1999 (The PRIME Act). The PRIME Act is focused on building the institutional strength of community-based microenterprise development organizations to meet the growing training and technical assistance needs of low income entrepreneurs.

Bipartisan support for PRIME has grown steadily since the legislation was first introduced near the end of the 105th Congress. The President's Budget calls for passage of PRIME and requests \$15 million for PRIME in Fiscal 2000. In the 106th Congress, legislation authorizing PRIME has been introduced by bipartisan teams in both the House and Senate. In the House, The PRIME Act (HR 413) was introduced with Congressmen Bobby Rush(D-IL) and Jim Leach(R-IA) in the lead, and Senators Edward Kennedy(D-MA) and Pete Domenici (R-NM) introduced PRIME (S 409) in the Senate.

The supporters of PRIME recognize that microenterprise development is a human capacity building strategy as much as it is a credit and finance strategy. PRIME is aimed at investing in nonprofit microenterprise development programs and building the capacity of these programs to provide the training and technical assistance that best supports low income entrepreneurs. One of the clearest lessons that has emerged from the first decade of microenterprise development in the U.S. is that credit without training and technical assistance is of limited success and therefore not cost effective. This is especially true for microenterprise programs that serve economically disadvantaged entrepreneurs.

Hundreds of thousands of individuals across the U.S. successfully operate micro businesses in order to provide income for their families. In today's labor market, many individuals without traditional education or recognized skills are unable to find work that pays above minimum wage or work that provides them with opportunities for advancement. Many individuals in households below 150% of the poverty line operate, or have proven the potential to operate, micro businesses in order to bring needed income and resources into the family, often running such businesses while holding down low wage jobs. Because these microenterprises are small, they generally do not have access to credit from commercial sector banks or technical assistance and training from business centers.

Over the last decade, an infrastructure of hundreds of microenterprise programs that provide technical assistance and credit has been created to serve these entrepreneurs. Data now shows that these programs are having a positive economic and social impact on the individual business owners they serve, their families, and on the economic and social well-being of their communities. With the exception of support from a few national private foundations, funding to cover the operational, training and technical assistance costs associated with these microenterprise programs has been difficult to find. While new sources of funding have been created to provide loan capital, federal support for the operating costs of such programs to meet the training needs of entrepreneurs has been minimal.

The PRIME Act creates a program at the Community Development Financial Institutions Fund (the CDFI Fund) dedicated to building the network of nonprofit community-based institutions that can effectively provide training and technical assistance to low income entrepreneurs. Under PRIME, the CDFI Fund would award

grants on a competitive basis to nonprofit microenterprise development organizations and programs. PRIME funds could be used by qualifying nonprofit organizations to:

- provide training and technical assistance to low income and disadvantaged entrepreneurs interested in starting or expanding their own business
- engage in capacity building activities targeted to microenterprise development organizations that serve low income and disadvantaged entrepreneurs
- support research and development activities aimed at identifying and promoting entrepreneurial training and technical assistance programs that effectively serve low income and disadvantaged entrepreneurs

The Association for Enterprise Opportunity (AEO), the national association of organizations committed to microenterprise development, has issued a challenge to all microenterprise supporters across the country. The challenge is to help one million low income individuals in the United States to achieve self sufficiency through self employment by the year 2008. Passage of The PRIME Act is critical in helping nonprofit microenterprise development organizations meet this challenge.

We urge you to support The PRIME Act (HR 413 and S 409) and work for its passage in this Congress.

Sincerely,

Aspen Institute - Economic Opportunities Program  
Association for Enterprise Opportunity (AEO)  
Association of Women's Business Centers (AWBC)  
The Coalition of Community Development Financial Institutions (CDFI Coalition)  
Center for Policy Alternatives (CPA)  
Community Development Venture Capital Alliance (CDVCA)  
Corporation for Enterprise Development (CFED)  
The Enterprise Foundation  
FINCA U.S.A.  
First Nations Development Institute  
Ms. Foundation for Women  
National Community Capital Association (NCCA)  
National Community Reinvestment Coalition (NCRC)  
National Congress for Community Economic Development (NCCED)  
RESULTS  
Wider Opportunities for Women (WOW)  
Woodstock Institute  
Working Capital